

fiscal forum

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A SYNOPSIS OF THE BASICS OF SCHOOL FUNDING

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Nearly 84% of school funding for the 1998-99 Fiscal Year (FY) will stem from the foundation allowance appropriations.¹ In dollar terms, this equates to more than \$8 billion out of a \$9.7 billion budget.² Since the passage of Proposal A in 1994 by the voters of Michigan, the term "foundation allowance" has been applied to that portion of school funding which is associated with a per-pupil funding concept.

What is a *basic* foundation allowance? Are all schools receiving a basic foundation allowance? Or, do some schools receive more? Or less? How is a basic foundation allowance determined? How are individual districts' foundation allowances determined? Does the state pay the entire portion of the foundation allowance, or does a local district pay a portion?

Answers to the above questions are fundamental to an understanding of how Michigan funds its schools. This ***Fiscal Forum*** will provide answers to the questions posed above, as well as a discussion of other germane topics such as pupil counts, mills assessed, and public school academies.

Pupil Counts and the Foundation Allowance

A foundation allowance is that portion of school funding linked to blended student (pupil) memberships. A district receives a foundation allowance based on a per-pupil membership. Beginning in FY 1997-98 and continuing in FY 1998-99, a district's pupil membership (used in calculating foundation allowance payments) is equivalent to 60% of the number of pupils in

attendance on the fourth Wednesday in September of the current school year, plus 40% of the number of pupils in attendance on the second Wednesday in February of the previous school year. This is commonly referred to as a "60-40 blended count."

In essence, this type of pupil membership count "rewards" districts whose memberships are growing quickly, as reflected in their September pupil counts. A school district's

¹ Payments for special education foundation allowances are not included here; they are appropriated separately in Section 51a of the State School Aid Act.

² For FY 1998-99, 1997 PA 142 appropriates \$9.65 billion, with \$8.09 billion appropriated for non-special education foundation allowance payments.

primary source of funding comes from its foundation allowance multiplied by the number of pupils determined to be in membership at that district using the "60-40 blended count."

The FY 1997-98 basic foundation allowance (BFA) is \$5,462 per membership pupil. The BFA was set at \$5,000 per membership pupil in FY 1994-95, at the time Proposal A was implemented. The BFA is a target level of funding per-pupil that grows using a formula mechanism written into the State Aid Act, and that takes into account the change over time in both pupil memberships and available state revenues.

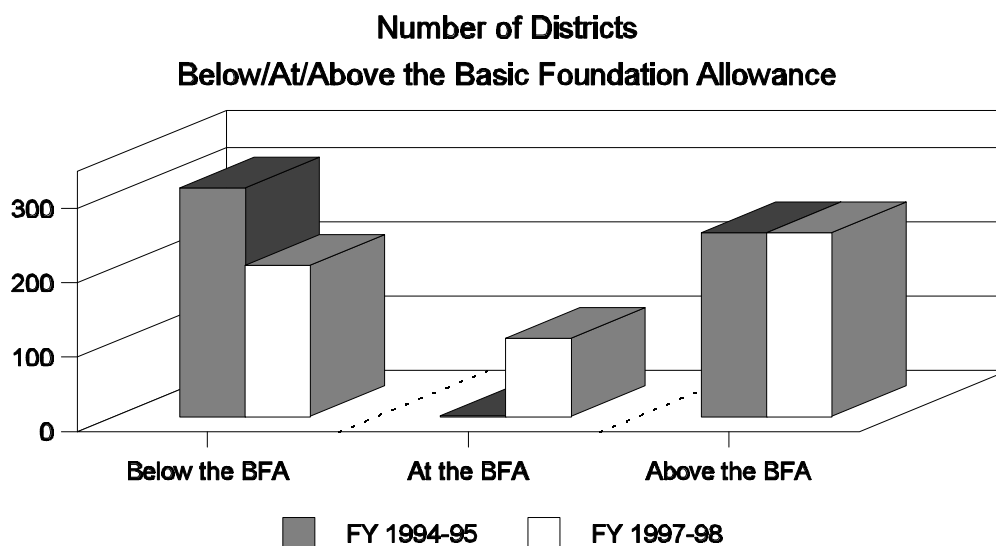
The foundation allowance of a Public School Academy (PSA) varies according to the district in which the charter is located. If a PSA is located in a district whose foundation allowance is above the BFA, then the foundation allowance for the PSA would be equal to the BFA plus \$500. If the PSA is located in a district whose foundation allowance is below the BFA, then the PSA's foundation allowance would equal the district's foundation allowance. The maximum foundation for a PSA in FY 1997-98 is \$5,962.

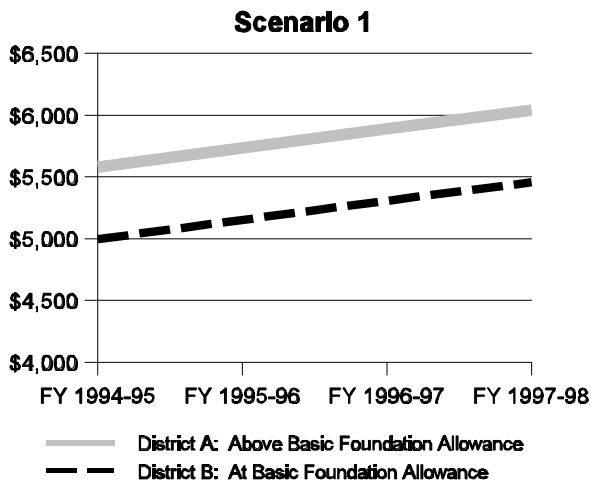
Not all districts receive the exact amount of the BFA. Many are above the BFA, some districts receive exactly the BFA per pupil, and other districts are striving to attain the BFA,

but are currently receiving less per pupil. As of FY 1997-98, 246 districts were above the BFA, 106 were at the BFA, and the remaining 203 were below the BFA. The chart below shows the number of districts below, at, and above the BFA in FY 1994-95, and where they stand in FY 1997-98. Why are there differences?

With the adoption of Proposal A, mathematical calculations were undertaken to compute the base dollars per pupil each district was receiving prior to Proposal A (in FY 1993-94). Revenue eligible to be counted in the base consisted of local school operating property tax revenue and state aid payments for formula aid and categorical programs that were "rolled up" into the foundation allowance. A formula was used to convert the base revenue received by a district in 1993-94 into a foundation allowance received in 1994-95. Following these calculations, the Legislature set the BFA at \$5,000.

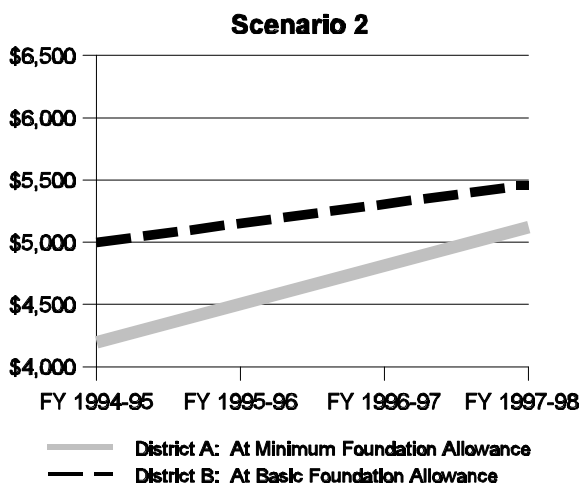
As stated previously, the initial \$5,000 BFA grew to \$5,462 in FY 1997-98, an overall increase of \$462, or 9.2%. As shown in **Scenario 1**, districts with initial foundation allowances greater than or equal to \$5,000 in FY 1994-95 receive the same yearly *dollar* increase in their foundation allowances as the yearly *dollar* increase in the BFA.





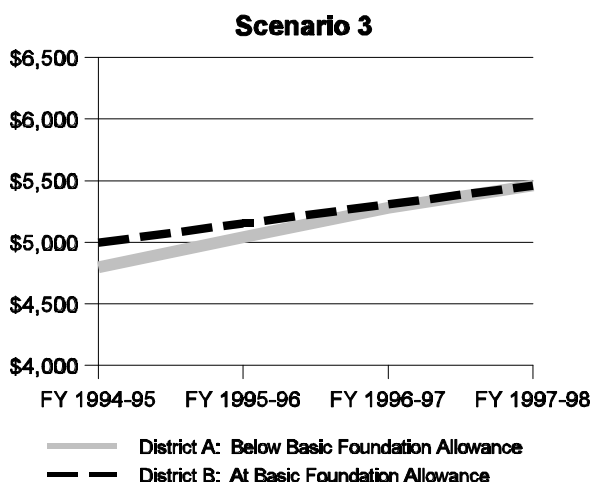
For example, a district with a FY 1997-98 foundation allowance of \$6,043 experienced that same \$462 increase in its foundation allowance because its FY 1994-95 foundation allowance (\$5,581) was greater than the BFA.

Contrary to Scenario 1, some districts receive the *minimum* foundation allowance (MFA). This is the lowest level of per pupil foundation allowance funding allowable, as set by the state, determined through the formula. In FY 1994-95, the MFA was set at \$4,200. For FY 1997-98, the MFA was \$5,124; an overall increase of \$924 — exactly twice the increase in the BFA over the same time period.



As shown in **Scenario 2**, districts at the MFA experience yearly increases in their foundation allowances equal to *twice the increase in the BFA*. Once the BFA equals \$5,800, these districts will reach the BFA and will then receive increases in their foundation allowances mirroring the increases in the BFA.

Finally, there are many districts who are between the MFA and the BFA (**Scenario 3**). A formula written into the State Aid Act determines the actual dollar amount by which the foundation allowances of these districts will increase. The speed by which a district accelerates toward reaching the BFA is based on how near the district's foundation allowance is to the BFA. The further a district's foundation allowance is from the BFA, the higher percentage increase it will receive in its foundation allowance.



However, once a district reaches the BFA, its foundation allowance will never exceed the BFA — yearly increases will be identical to increases in the BFA.

Foundation Allowance Components: State Allocations and Local Millage

A district's foundation allowance consists of two sources of funding: a local portion and a state portion. In general, the local funding responsibility is equivalent to 18 mills multiplied by the per-pupil non-homestead (generally commercial and industrial property) taxable value of property within the district, adjusted by any property tax revenue lost through tax increment financing

authorities or other types of development tax breaks.³

³ Districts may choose not to levy the full 18 mills, may be forced by Headlee rollbacks to levy less than 18 mills, or must levy the number of mills levied in 1993-94, if that millage rate was less than 18 mills. For specifics on mills and types of tax breaks adjustments, the reader is referred to Section 20(4) of the State School Aid Act, MCL 388.1620.

The state funding portion is equal to the difference between the district's foundation allowance and that district's local funding responsibility. However, there is a cap to the state's funding responsibility.

If a district's foundation allowance exceeds \$6,500 adjusted each year by an amount equal to the yearly dollar change in the BFA, then the state's funding responsibility is equal to the \$6,500 adjusted yearly minus the local funding responsibility.⁴ The district then may make up the difference by levying "hold harmless" millage up to a permissible amount.⁵

A "hold harmless" millage provides supplemental dollars, to achieve a district's foundation allowance, for those districts whose allowances exceed \$6,500 adjusted yearly. "Hold harmless" mills are assessed first on homestead property, up to 18 mills. If a district levies more than 18 "hold harmless" mills, the additional mills beyond 18 are levied both on homestead and non-homestead property.

Other allowable sources of revenue available to districts through millage elections are sinking funds and debt retirement. With voter approval, districts can levy mills to deposit revenues into a sinking fund (for purchase of land), or to pay down bonded debt.⁶ As of the end of FY 1996-97, districts are no longer able to levy local enhancement mills.⁷ However, beginning in 1997, regional enhancement mills (up to three mills) can be levied through voter approval by an Intermediate School District (ISD). The enhancement revenues are distributed to districts within the ISD on a pupil membership basis.

⁴ The state pays the entire amount of a special education pupil's foundation allowance, capped at \$6,500 adjusted each year by an amount equal to the yearly dollar change in the BFA. For FY 1997-98, this cap was \$6,962.

⁵ For a more detailed description of "hold harmless", please see the Revised School Code, section 380.1211(2).

⁶ For a more detailed description of allowable mills, please see the Revised School Code, sections 380.1351 to 380.1372.

⁷ For a more detailed description of regional enhancement mills, please see the Revised School Code, section 380.705.

The state levies six mills on both homestead and non-homestead property; this is known as the State Education Tax. This revenue is funneled directly into the School Aid Fund, for the sole purpose of providing funding for schools.⁸

Summary

With the passage of Proposal A, a drastic change in the method of financing schools and determining districts' state aid payments occurred. Districts now receive foundation allowances — a per-pupil revenue source paid on pupil memberships.

Determining what a district's foundation allowance is, and knowing how the district's foundation allowance compares to the basic foundation allowance are of prime importance to any legislator, lobbyist, consumer interest group, or parent. This **Fiscal Forum** addressed the origins of the foundation allowance; the relevance of pupil counts; the numbers of districts above, at, or below the BFA; and sources of revenue.

School aid financing issues will continue to be at the forefront of political debate. With a clear understanding of the current processes, and some historical background, it becomes easier to view and discuss the methods involved in funding Michigan's schools.

⁸ A statewide ad valorem property tax was established by 1993 PA 331.